CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE

2ND DISTRICT AGRICULTURAL ASSOCIATION
SAN JOAQUIN COUNTY FAIR
STOCKTON, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

AUDIT REPORT #09-002
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

2ND DISTRICT AGRICULTURAL ASSOCIATION
SAN JOAQUIN COUNTY FAIR
STOCKTON, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

Ron Shackelford, CPA	Audit Chief
Shakil Anwar, CPA	Assistant Audit Chief
Anthony DelMastro	Auditor
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AUDIT REPORT NUMBER

#09-002

2ND DISTRICT AGRICULTURAL ASSOCIATION
SAN JOAQUIN COUNTY FAIR
STOCKTON, CALIFORNIA

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Ms. Victoria Salazar, President
Board of Directors
2nd DAA, San Joaquin Fair
1658 S. Airport Way
Stockton, California 95206

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 2nd District Agricultural Association (DAA), San Joaquin County Fair, Stockton, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 2nd DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 2nd DAA, San Joaquin County Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 2nd DAA, San Joaquin County Fair has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-002, on the 2nd DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 2nd DAA as appropriate. This additional report, however, is <u>not</u> a required part of the basic financial statements.

Ron Shackelford

Ron Shackelford, CPA
Chief, Audit Office

November 18, 2009

2ND DISTRICT AGRICULTURAL ASSOCIATION
SAN JOAQUIN FAIR
STOCKTON, CALIFORNIA

STATEMENTS OF FINANCIAL CONDITION
December 31, 2008 and 2007

	Account Number	2008	2007
ASSETS			
Cash and Cash Equivalents	111-118	$ 94,922	$ 358,273
SWF Equipment Replacement	121	-	238,371
Accounts Receivable, Net	131	149,431	89,179
Land	191	248,846	248,846
Buildings and Improvements, Net	192	4,083,312	4,370,038
Equipment, Net	193	6,468	11,812
TOTAL ASSETS		**4,582,980**	**5,316,519**
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable and Other Liabilities	211-213, 221-227	111,670	46,042
Deferred Income	228	-	20,000
Guaranteed Deposits	241	16,981	12,725
Compensated Absences Liability	245	145,046	167,578
Total Liabilities		**273,697**	**246,345**
Net Resources			
Reserve for Junior Livestock Auction	251	59,357	48,483
Net Resources - Operations	291	(88,701)	390,995
Net Resources - Capital Assets	291.1	4,338,626	4,630,696
Total Net Resources Available		**4,309,282**	**5,070,174**
TOTAL LIABILITIES AND NET RESOURCES		**$ 4,582,980**	**$ 5,316,519**

2ND DISTRICT AGRICULTURAL ASSOCIATION
SAN JOAQUIN FAIR
STOCKTON, CALIFORNIA

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
December 31, 2008 and 2007

	Account Number	2008	2007
REVENUE			
State Apportionments	312	$ 80,000	$ 40,000
Other F& E Allocation	319	-	168,195
Donated Assets	340	-	5,623
Admissions	410	267,857	389,669
Commercial Space	415	29,600	49,325
Carnival	421	145,598	317,081
Food Concessions	422	101,445	184,422
Exhibits	430	37,634	44,298
Horse Racing	450	995,481	1,454,702
Satellite Wagering	45005	891,921	1,020,244
Miscellaneous Fair	470	171,495	220,401
JLA - Revenue	476	49,548	34,377
Interim Revenue	480	486,701	483,144
Prior Year Revenue	490	14,244	88,916
Non-Fair Revenue	495	8,781	18,359
Total Revenue		**3,280,304**	**4,518,756**
EXPENSES			
Administration	500	529,061	493,528
Maintenance and Operations	520/530	853,687	1,036,656
Publicity	540	171,154	179,518
Attendance	560	102,163	203,075
Miscellaneous Fair & Non-Fair	570	8,474	9,926
JLA Expense	576	38,675	10,679
Premiums	580	33,586	45,003
Exhibits	630	127,898	167,839
Horse Racing	650	554,034	667,972
Satellite Wagering	65005	792,619	803,992
Attractions - Fairtime & Non-Fairtime	660	512,659	622,837
Non-Capitalized Expenditures	723	6,732	-
Prior Year Adjustments	800	15,950	51,878
Cash Over/Short	850	436	505
Depreciation Expense	900	294,068	293,953
Other Operating Expense	945	-	93,676
Total Expenses		**4,041,196**	**4,681,037**
RESOURCES			
Net Change - Income / (Loss)		(760,892) -	(162,281)
Resources Available, January 1		5,070,174	5,232,455
Resources Available, December 31		**$ 4,309,282**	**$ 5,070,174**

2ND DISTRICT AGRICULTURAL ASSOCIATION
SAN JOAQUIN COUNTY FAIR
STOCKTON, CALIFORNIA

STATEMENTS OF CASH FLOWS - REGULATORY BASIS
December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	$ (760,892)	$ (162,281)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	(60,252)	(41,716)
(Increase) Decrease in Equipment Replacement	238,371	(13,206)
Increase (Decrease) in Deferred Income	(20,000)	10,000
Increase (Decrease) in Accounts Payable & Other Liabilities	65,629	(11,420)
Increase (Decrease) in Compensated Absence Liability	(22,532)	(7,616)
Increase (Decrease) in Guarantee Deposits	4,256	(4,075)
Total Adjustments	205,471	(68,033)
Net Cash Provided (Used) by Operating Activities	**(555,421)**	**(230,314)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Buildings & Improvements	286,726	205,650
(Increase) Decrease in Equipmen	5,344	5,788
Net Cash Provided (Used) by Investing Activities	**292,070**	**211,438**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	-	-
Net Cash Provided (Used) by Financing Activities	**-**	**-**
NET INCREASE (DECREASE) IN CASH	**(263,351)**	**(18,876)**
Cash at Beginning of Year	358,273	377,149
CASH AT END OF YEAR	**$ 94,922**	**$ 358,273**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 2nd District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the San Joaquin County Fair each year in Stockton, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAAs to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do no conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to $40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories, if any, consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than $5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 **NEW ACCOUNTING STANDARDS**

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues,* ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* ("GASB Statement No. 49"). GASB Statement No. 49 requires governmental entities to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an "expected cash flows" measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures,* (GASB Statement No. 50"). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits ("OPEB") and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information ("RSI") by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* ("GASB Statement No. 25"), and No. 27, *Accounting for Pensions by State and Local Governmental Employers,* ("GASB Statement No. 27") to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* ("GASB Statement No. 43") and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ("GASB Statement No. 45"). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* ("GASB Statement No. 51"). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3 **CASH AND CASH EQUIVALENTS**

The following list of cash and cash equivalents were held by the DAA as of December 31:

	2008	2007
Petty Cash & Change Funds	$ 600	$ 600
Cash in Bank – Operating	18,085	(90,525)
Cash in Bank – Payroll	314	2,357
Cash in Bank – JLA	69,125	48,482
Cash in Bank – Time Deposits	6,798	397,359
Total Cash and Cash Equivalents	$ 94,922	$ 358,273

NOTE 4 **ACCOUNTS RECEIVABLE**

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	2008	2007
Accounts Receivable - Trade	$ 154,195	$ 93,843
Allowance for Doubtful Accounts	(4,764)	(4,664)
Accounts Receivable - Net	$ 149,431	$ 89,179

NOTE 5 **PROPERTY AND EQUIPMENT**

Buildings and improvements, and equipment at December 31, 2008 and 2007 consist of the following:

	2008	2007
Building & Improvements	$ 11,194,145	$ 11,194,145
Less: Accumulated Depreciation	(7,110,833)	(6,824,107)
Building & Improvements - Net	$ 4,083,312	$ 4,370,038
Equipment	$ 520,764	$ 520,764
Less: Accumulated Depreciation	(514,296)	(508,952)
Equipment – Net	$ 6,468	$ 11,812

NOTE 6 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The

DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

2ND DISTRICT AGRICULTURAL ASSOCIATION
SAN JOAQUIN COUNTY FAIR
STOCKTON, CALIFORNIA

REPORT DISTRIBUTION

Number	Recipient
1	President, 2nd DAA Board of Directors
1	Chief Executive Officer, 2nd DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE

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2ND DISTRICT AGRICULTURAL ASSOCIATION
SAN JOAQUIN COUNTY FAIR
STOCKTON, CALIFORNIA

MANAGEMENT REPORT #09-002

YEAR ENDED DECEMBER 31, 2008

2ND DISTRICT AGRICULTURAL ASSOCIATION
SAN JOAQUIN COUNTY FAIR
STOCKTON, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

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Ms. Victoria Salazar, President
Board of Directors
2nd DAA, San Joaquin Fair
1658 S. Airport Way
Stockton, California 95206

In planning and performing our audit of the financial statements of the 2nd District Agricultural Association (DAA), San Joaquin County Fair, Stockton, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the San Joaquin County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 2nd DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 2nd DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 2nd DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 2nd DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 2nd DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 2nd DAA and compliance with state laws and regulations, we identified two areas with reportable conditions that are considered weaknesses in the Fair's operations: standard agreements and junior livestock auction. We have provided three recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 2nd DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is <u>not</u> required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

STANDARD AGREEMENTS

An examination of the Fair's standard contracts revealed the following conditions:

a. The Fair exposed itself to loss by not disclosing all financial terms and conditions in its contract to procure fairtime advertising. Our office noted that one contractor was paid in excess of the agreed-upon contract amount without an amendment to the contract or approval from the Division of Fairs & Expositions (F&E) for exceeding the original agreed-upon rates. The payments made on the contract, specifically written to not exceed $9,900, surpassed the amount by $115,222. This was a result of the Fair reimbursing the contractor for advertising costs instead of paying advertisers directly. The existing contract did not specify the Fair would reimburse the contractor for purchasing advertising on the Fair's behalf. According to the F&E Contract Manual Section 6.05, if an amendment increases the dollar amount of the contract over $75,000 then the entire original contract package must be submitted to F&E, along with the amendment, for approval.

b. The Fair did not always prepare a Standard 210 Agreement for businesses/individuals who received an IRS Form 1099-MISC for services rendered. The IRS Form 1099-MISC is issued to recipients of non-employee compensation of $600 or more from the Fair during the calendar year. According to the Accounting Procedures Manual (APM), fairs are required to complete a Standard 210 Agreement for all personal services provided to the Fair. Failure to prepare a standard agreement exposes the Fair to considerable risk.

The above were all prior year audit findings.

Recommendations

1. *The Fair should comply with the F&E Contract Manual by ensuring all standard agreements specify all financial terms, conditions, and payments eventually paid to the contractor. This process will help the Fair eliminate any potential disputes that may arise. In addition, F&E approval should be obtained in cases where the total amount of the contract will exceed $75,000.*

2. *The Fair should ensure it completes a Standard 210 Agreement for all personal services rendered to the Fair by vendors who will receive an IRS FORM 1099-MISC from the Fair. Formalizing the services on a contract helps alleviate any possible disputes that may arise.*

JUNIOR LIVESTOCK AUCTION

An examination of the Fair's accounting for Junior Livestock Auction (JLA) activities revealed the following conditions:

a. The Fair did not properly account for its JLA activities. The JLA revenue and expenditure accounts were not properly closed into Account #251, JLA Reserve. The Fair made direct entries into its Account #251, JLA Reserve, to balance its cash account rather than recognizing the revenues and expenditures from its JLA activities appropriately. As a result, there was no clear audit trail to determine whether the Fair recognized all revenue and expenditures related to its JLA activities for 2008.

b. The Fair did not recognize all of its revenue related to the reserve commission retained from the auction. The Fair retains a 7% commission on its auction; however, the revenues that should have been recognized related to this amount were not recorded in the Fair's general ledger.

c. The general ledger amounts for Account #476, JLA Revenues, and Account #576, JLA Expenses, did not reconcile to the amounts reported by the Fair on its 2008 Statement of Operations (STOP). Because the Fair made direct entries during the year to its Account #251, JLA Reserve, to adjust its cash account based on bank reconciliations, the Fair did not adequately account for its revenues and expenditures. Consequently, when attempting to perform a roll-forward of Account #251 from the January 1, 2008 balance to the December 31, 2008 balance, Account #251 already showed the Fair's desired reserve balance at year-end, prior to closing its revenues and expenditures.

The above were all prior year audit findings.

Recommendation

3. *The Fair should ensure a clear audit trail exists for JLA activities by following the APM (rev. May 1996) Section II, 5.1 – 5.33 regarding the accounting for JLA, so as to provide greater transparency of the net effect of annual activities, revenue and expenses, to the JLA Net Resource Account. Additionally, the Fair should recognize the full amount of commission revenue and auction expenses when accounting for its JLA activities. Also, the Fair should ensure it is reporting the correct amounts for its JLA activities on the annual STOP. Reporting should agree to the general ledger and include the full amount of revenue and expense from JLA activities that occurred during the year.*

NON-REPORTABLE CONDITIONS

PERSONNEL RECORDS

Based on an examination of employee compensated leave records, our office noted the Fair did not accurately accrue leave balances for two exempt employees, resulting in understating its accounts payable and leave liability accounts. We noted that these employees currently accrue vacation at 15 hours per month. According to these employees' appointment dates and Department of Personnel Administration rules, the accrual for these employees should be 16 hours per month.

Based on the information above, one employee as of December 31, 2008, has departed from the state service, and should be credited 127 hours. The second employee should be credited 78 hours of vacation. Due to the incorrect accrual hours being used, accounts payable is understated by $4,074 and leave liability by $3,637, respectively.

Additionally, the Fair allowed four employees to work in excess of the 119-day limitation within a calendar year. According to the APM, Section III, 4.34, "by law temporary employees may not work more than 119 days in a calendar year." The APM further cites Article VII, Section 4(1) of the Constitution for the State of California as its basis for this policy. These employees worked between 120 and 175 days during 2008.

Recommendations

> *The Fair should establish an accounts payable for unpaid vacation due for the employee who has departed from the state service. Additionally, the Fair should adjust its leave liability and should use the correct accruing hours to accurately account for its leave liability, Account #245.*
>
> *The Fair should ensure it is tracking its temporary employees and not allowing them to work in excess of the 119-day limitation determined by F&E on the basis established under the California Constitution.*

INDEPENDENT CONTRACTORS

The Fair did not always report independent contractors as required. The Employment Development Department (EDD) requires Form DE 542 to be filed within twenty (20) days of either making payments of $600 or more, or entering into a contract for $600 or more with an independent contractor in any calendar year, whichever is earlier. This information is used to assist state and county agencies in locating parents who are delinquent in their child support obligations.

Recommendation

The Fair should ensure that DE 542, Report of Independent Contractors, is prepared and submitted to the EDD within 20 days of paying/contracting for $600 or more in services as required by the EDD.

CONCESSION REVENUE

The Fair has a year-round concessionaire for its Satellite Wagering (SW) facility. The Fair exposed itself to a possibility of loss in concession revenue by not obtaining adequate Z-tapes from its concessionaire. According to the APM, Section II, the Fair should request copies of all register tapes for each day the event is held to verify accuracy of sales reported by the vendor. Due to the lack of Z-tapes, the Fair is unable to verify accuracy of sales revenue reported by the vendor.

Recommendation

The Fair should ensure that cash register Z-tapes are received from its SW concessionaire after each day in order to ensure the accuracy of gross concessions revenue being reported.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE

SAN JOAQUIN COUNTY
FAIR
JUNE 16-20, 2010
CELEBRATING 150 YEARS OF GOOD TIMES

February 10, 2010

Ron Shackelford, Chief
Audit Office
Department of Food and Agriculture
2014 Capitol Avenue, Suite 107
Sacramento, CA 95811

Dear Mr. Shackelford:

This letter is the 2nd District Agricultural Association's response to Management Report # 09-002, for the year ended December 2008. We are responding in the same order as the report, referencing your recommendation numbers.

STANDARD AGREEMENTS

Effective immediately the Fair will comply with the F&E Contract Manual by ensuring all standard agreements specify all financial terms, conditions, and payments eventually paid to the contractor.

Effective immediately the Fair will ensure it completes a Standard 210 Agreement for all personal services rendered to the Fair by vendors who will receive an IRS FORM 1099-MISC from the Fair.

JUNIOR LIVESTOCK AUCTION

The Fair will ensure a clear audit trail exists for JLA activities by following the Accounting Procedures Manual regarding the accounting for JLA. These procedures will be implemented in July 2010.

Thank you for the opportunity to respond to this audit. If you require further information or clarification, please contact us.

Debbie Cook
Debbie Cook
Chief Executive Officer

Victoria M. Salazar
Victoria Salazar
President, Board of Directors

sanjoaquinfair.com
Second District Agricultural Association • 1658 S. Airport Way • Stockton, CA 95206
(209)466-5041 • (209)466-5739 fax • fun@sanjoaquinfair.com

CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 2nd DAA, San Joaquin Fair for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between November 2, 2009 and November 18, 2009. My staff met with management on November 18, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.

Ron Shackelford

Ron Shackelford, CPA
Chief, Audit Office

November 18, 2009

REPORT DISTRIBUTION

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1	President, 2nd DAA Board of Directors
1	Chief Executive Officer, 2nd DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office